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# **Supplement to the 2003 Annual Report to the Illinois General Assembly on Insurance Cost Containment**



Rod R. Blagojevich, Governor

J. Anthony Clark, Director

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DEPARTMENT OF INSURANCE  
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GOVERNOR

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August 15, 2003

To the Honorable Members of the 93rd General Assembly:

The Illinois Insurance Cost Containment Act requires the Director of Insurance to submit an annual report to the General Assembly by April 15th containing his analysis of the Illinois insurance market and his recommendation of the most appropriate and comprehensive cost containment system for the state (Article XLII, 215 ILCS 5/1202d).

In accordance with the requirement of Section 1202 of the Illinois Insurance Code, I submitted the Annual Report to the General Assembly on Insurance Cost Containment for 2003 on April 15, 2003. It contained significant information on both a nationwide and Illinois basis regarding the underwriting results for the property and casualty insurance industry for the year 2001.

In the cover letter for the 2003 Annual Report, I reported that I asked my staff to provide a supplement to this report, which would include 2003, and later data and information. This document supplements the 2003 Annual Report that was submitted on April 15, 2003.

Sincerely,

J. Anthony Clark,  
Director

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## **Purpose of This Supplement**

The Department of Insurance is required by statute to submit an *Annual Report to the Illinois General Assembly on Insurance Cost Containment* by April 15<sup>th</sup> of each year. Because much of the insurance company financial data necessary to compile the report are not available until March 1<sup>st</sup>, some information in the Annual Report is nearly 18 months old at the time of publication. For example, the Annual report submitted on April 15, 2003, summarizes insurance information for calendar year 2001.

However, with the significant changes in the property and casualty insurance markets over the past two years, the Department believes a more timely review of the Illinois insurance marketplace is in order. This supplemental report looks at market conditions occurring during 2002 and the first several months of 2003 to provide a more accurate assessment of the current Illinois property and casualty industry.

**Overview**

This supplement to the April 15, 2003 report contains information and data for the year 2002 for following lines of business: Medical Malpractice, Homeowners, Private Passenger Automobile and Workers Compensation.

This spring, state legislatures throughout the nation are debating whether caps on jury awards in medical malpractice cases can cure the high price of medical malpractice insurance and dwindling availability of coverage. In Illinois, the largest writer of medical malpractice insurance – ISMIE Mutual Insurance Co. – increased its rate for its existing policyholders and stopped accepting new customers this year.

Many Midwestern states this spring have been experiencing a severe tornado and storm season. Tornadoes tore through 18 states in May, causing more than \$1.6 billion in damage according to some estimates.

According to the April 2003 U.S. Department of Labor's Consumer Price Index, automobile insurance rose 8.8% in 2002 from the previous year, while homeowners and tenants' insurance rose 2.4%.

In the Workers Compensation line of business, losses, as a percent of earned premium, finally declined in 2001 after steadily rising since 1997. Increasing costs of medical care and payments for lost wages drove claims costs up. However, on the bright side, while the dollar amount of claims has been rising, the number of claims filed has been dropping steadily. More recently, there has been an increasing number of large employers obtaining coverage through assigned risk pools during the last two years, as opposed to smaller employers that generally utilized these pools for coverage.

## Analysis of Specific Lines

### *Medical Malpractice*

As medical malpractice rates continue to rise and availability dwindles, doctors are calling on state legislatures to limit the size of jury awards in malpractice lawsuits, as the federal government has done this year. In Illinois this spring, the largest writer of malpractice coverage announced a rate increase of 32.5% effective July 1. ISMIE Mutual Insurance Co. also stopped accepting new clients January 1 this year.<sup>1</sup> The company has a 57.9% share of the malpractice liability market.

Losses in Illinois, as a percent of earned premium, rose from 116.8% to 158.7% from 2001 to 2002. Medical malpractice losses in Illinois were 66.5% higher than the aggregate nationwide losses in 2002 (see Figure 1).

**Figure 1**  
**Medical Malpractice Underwriting Results 2002**

Medical Malpractice (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	\$450,185	\$5,315,719
Direct earned premiums	\$431,891	\$5,141,701
Expenses (% earned prem.)		
Incurred losses	158.7%	92.2%
Def. & cost cont. exp. incurred	30.0%	27.5%
Comm./brokerage	6.9%	8.3%
Taxes, licenses & fees	1.8%	2.6%

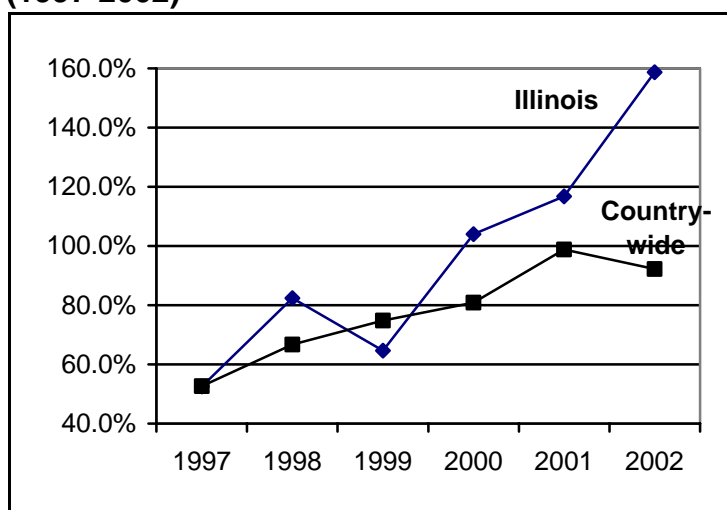
\*Source: NAIC State Data Network, 2002 Illinois State Page Exhibit, Aggregate Totals of 68 Medical Malpractice Insurers

\*\* Source: NAIC State Data Network, 2002 Insurance Expense Exhibit Part III, Aggregate Totals of 102 Medical Malpractice Insurers

Figure 2 on the following page shows the marked difference in aggregate medical malpractice losses for both Illinois and nationwide since 1999. Nationwide, losses actually declined for the first time since 1997.

<sup>1</sup> "Malpractice Rates Skyrocket", by Tim Landis, State Journal-Register, April 30, 2003.

**Figure 2**  
**Medical Malpractice Losses as a % of Premiums Earned**  
**(1997-2002)**



Selected data from the top ten providers of medical malpractice coverage in Illinois for 2001 and 2002 are shown in Figures 3 and 4 below and on the following page.

**Figure 3**  
**Top 10 Medical Malpractice Insurers in Illinois – 2002**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
ISMIE Mutual Ins Co	\$260,756	\$246,576	57.9%	103.0%	30.7%	5.0%	1.6%
American Phys. Assur Corp	35,548	22,992	7.9%	51.9%	19.3%	9.7%	2.3%
St Paul Fire & Marine Ins Co	21,773	33,358	4.8%	594.8%	32.1%	2.8%	2.0%
Pronational Ins Co	17,334	17,805	3.8%	126.6%	18.6%	9.1%	1.1%
Medical Protective Co	14,899	11,175	3.3%	65.2%	16.5%	7.2%	0.6%
Physicians Ins Co Of WI	11,449	9,970	2.5%	70.3%	30.2%	10.7%	2.0%
Doctors Co An Interins Exchn	10,661	9,685	2.4%	175.5%	-30.1%	9.4%	2.5%
TIG Ins Co	10,174	8,234	2.3%	113.4%	17.8%	10.0%	2.9%
Chicago Ins Co	9,313	11,579	2.1%	69.8%	6.6%	16.4%	1.2%
Cincinnati Ins Co	5,714	5,268	1.3%	75.9%	11.5%	13.9%	3.6%
ISMIE Indemnity Co	5,337,884	4,802,553	1.2%	69.0%	25.0%	0.0%	1.2%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

**Figure 4**  
**Top 10 Medical Malpractice Insurers in Illinois - 2001**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
Ill. State Med Interins Exch	\$207,795	\$188,749	53.5%	72.8%	27.7%	5.8%	0.0%
St Paul Fire & Marine	\$28,312	\$27,932	7.3%	240.5%	21.4%	5.1%	2.0%
Pronational Ins Co	\$17,769	\$17,287	4.6%	111.2%	44.4%	8.1%	1.5%
APSpeciality Ins Corp	\$17,688	\$17,895	4.6%	72.2%	34.3%	9.4%	0.8%
Chicago Ins Co	\$12,106	\$10,543	3.1%	33.2%	-6.3%	23.8%	2.5%
Physicians Ins Co of WI	\$9,279	\$8,339	2.4%	48.5%	24.4%	14.6%	1.8%
Doctors Co an Interins Ex	\$9,113	\$10,080	2.3%	186.3%	79.8%	9.6%	2.4%
Lawrenceville Prop & Cas	\$8,890	\$8,413	2.3%	108.3%	16.8%	5.0%	3.9%
Medical Protective Co	\$8,648	\$8,552	2.2%	20.8%	10.3%	4.2%	-0.2%
Continental Cas Co	\$7,707	\$5,319	2.0%	348.4%	61.4%	15.1%	0.0%

Losses incurred, defense and cost containment expenses incurred and taxes, licenses and fees are shown as a percent of earned premium. Commission and brokerage expenses are shown as a percent of written premium.

### *Personal Lines – Homeowners and Automobile*

During May this year, the National Weather Service counted 498 tornadoes in 18 states. Thirteen of these storms killed at least 41 people.<sup>2</sup> Total property damaged is estimated at more than \$1.6 billion. Insurers expect to receive more than 429,000 claims from auto, residential and commercial policyholders. According to the Insurance Services Office, Illinois was the sixth hardest hit of the 18 states with estimates of \$75 million of insured property losses and two deaths. This tornado season could be one of the costliest on record, matching the May 1999 tornado season which also caused \$1.6 billion in damage and just below the \$2.2 billion caused by the April 2001 hail and wind storms.<sup>3</sup>

Figure 5 shows a comparison of aggregate underwriting results for homeowners insurance in Illinois and nationwide for 2002.

<sup>2</sup> "Property Loss from Storms This Month is Third All-time", by Michael D. Sorkin, St. Louis Post Dispatch, May 20, 2003.

<sup>3</sup> Insurance Services Office News Release, May 20, 2003.



**Figure 5**  
**Homeowners Underwriting Results 2002**

Homeowners (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	\$1,709,688	\$31,728,457
Direct earned premiums	\$1,542,375	\$29,719,662
Expenses (% earned prem.)		
Incurred losses	67.7%	63.3%
Def. & cost cont. exp. incurred	1.8%	2.8%
Comm./brokerage	14.0%	13.6%
Taxes, licenses & fees	1.5%	2.7%

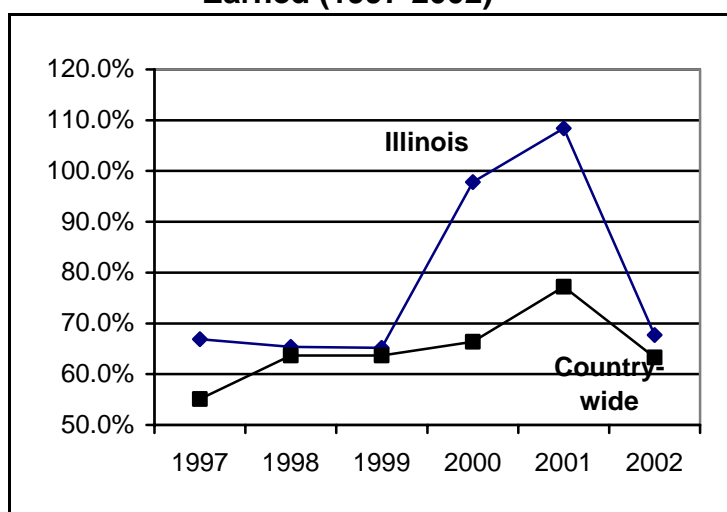
\*Source: NAIC State Data Network, 2002 Illinois State Page Exhibit, Aggregate Totals of 224 Homeowners Insurers

\*\* Source: NAIC State Data Network, 2002 Insurance Expense Exhibit Part III, Aggregate Totals of 390 Homeowners Insurers

Insured losses in the homeowners line of business in Illinois were comparable to nationwide losses before 2000. But the next two years saw loss percentages well above national figures, due to a severe tornado and storm season in 2000, followed by the \$2.2 billion in damages caused by the April 2001 hail and wind storms, as mentioned earlier, which hit mainly in northern Illinois and the Chicago metro area.

Figure 6 on the following page shows the trend for insured homeowners losses for the period 1997-2002.

**Figure 6**  
**Homeowners Losses as a % of Premiums Earned (1997-2002)**



Figures 7 and 8 shows the market share for the top 10 homeowners insurers in Illinois for 2002 and 2001, along with each companies financial results in Illinois.

**Figure 7**

**Top 10 Homeowners Insurers in Illinois – 2002**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Exp. Incurred	Comm. & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Fire & Casualty	\$554,780	\$488,907	32.4%	72.5%	1.2%	13.4%	1.4%
Allstate Insurance Co	182,544	167,923	10.7%	57.4%	0.9%	10.2%	1.0%
Illinois Farmers Ins Co	118,273	108,684	6.9%	45.5%	4.0%	18.2%	1.4%
Country Mutual Ins Co	105,760	98,125	6.2%	64.1%	1.3%	14.4%	1.2%
American Family Mutual	93,658	84,687	5.5%	64.2%	1.1%	14.4%	0.7%
Allstate Indemnity	52,963	37,680	3.1%	64.5%	1.3%	17.4%	1.4%
Economy Premier Assurance	46,980	34,810	2.7%	53.5%	1.1%	20.9%	1.3%
Safeco Ins Co of Illinois	30,060	33,350	1.8%	77.8%	3.5%	16.0%	1.2%
Travelers P&C of Illinois	27,058	23,488	1.6%	70.6%	1.5%	17.0%	1.8%
Economy Fire & Casualty Co	17,775	18,078	1.0%	52.4%	-1.8%	-0.2%	1.1%

**Figure 8**

**Top 10 Homeowners Insurers in Illinois - 2001**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Fire & Cas Co	\$445,835	\$433,013	31.2%	104.5%	2.1%	13.6%	2.1%
Allstate Insurance Co	\$158,797	\$162,483	11.1%	125.2%	2.5%	9.7%	1.1%
Illinois Farmers Ins Co	\$101,830	\$94,550	7.1%	124.8%	6.6%	20.6%	1.2%
Country Mutual Ins Co	\$91,200	\$88,856	6.4%	66.7%	0.8%	14.5%	2.4%
American Family Mutual	\$78,568	\$75,836	5.5%	109.8%	2.4%	16.5%	1.6%
Safeco Ins Co of Ill.	\$34,008	\$34,691	2.4%	125.4%	1.3%	16.8%	1.0%
Economy Preferred Ins Co	\$29,520	\$40,866	2.1%	86.1%	0.7%	12.4%	0.5%
Allstate Indemnity	\$26,015	\$14,893	1.8%	103.5%	1.2%	37.1%	1.1%
Travelers Prop & Cas of Ill.	\$21,047	\$19,201	1.5%	123.7%	1.9%	21.4%	3.6%
Economy Fire & Cas Co	\$18,977	\$19,688	1.3%	73.0%	0.5%	23.3%	0.7%

The Consumer Price Index for homeowners insurance was 6.5% higher in April 2003 and for the same month last year and automobile insurance was up 9.4% for the month of April compared to a year ago. For the year 2002, the CPI for homeowners insurance was 2.4% higher than in 2001 and 8.8% for auto insurance than in 2001. Figure 9 shows the CPI for auto and homeowners insurance and related items.

**Figure 9**  
**Consumer Price Index for Automobile and Household Insurance, and Related Items**

	Percentage change from year ago		
	2002 (full year)	2003 Mar.	2003 Apr.
<b>Overall Index</b>	1.6%	3.0%	2.2%
<b>Household Insurance and Related Items</b>			
Tenants' and Household Insurance	2.4	6.7	6.5
Repair of Household Items	4.8	5.0	5.3
<b>Auto Insurance and Related Items</b>			
Motor Vehicle Insurance	8.8	8.9	9.4
Motor Vehicle Body Work	2.4	2.2	2.2
Total Medical Care	4.7	4.3	4.0
Physicians Services	2.8	3.0	3.3
Hospital Services	9.0	8.4	7.3

Source: U.S. Department of Labor CPI

Figure 10 shows the underwriting results in Illinois for 2002 compared to countrywide results.

**Figure 10**  
**Private Passenger Auto Underwriting Results 2002**

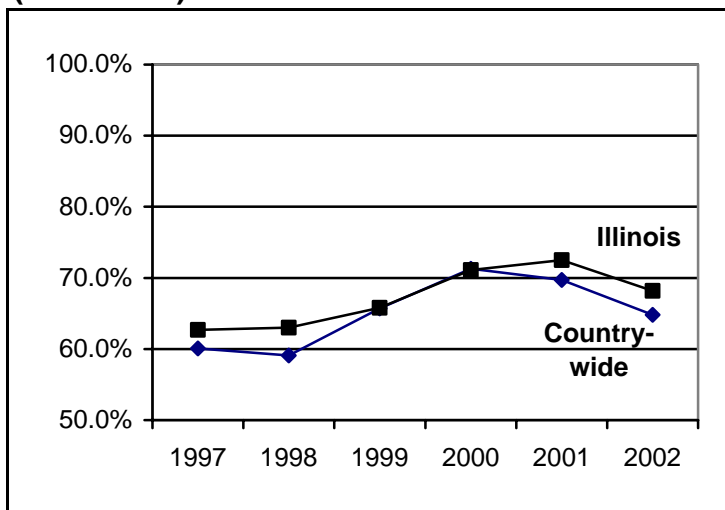
<b>Priv Pass Auto</b> (\$000 omitted)	<b>Illinois*</b>	<b>Countrywide**</b>
Direct written premiums	\$5,344,162	\$109,464,170
Direct earned premiums	\$5,199,836	\$106,848,318
Expenses (% earned prem.)		
Incurred losses	64.8%	68.2%
Def. & cost cont. exp. incurred	2.9%	2.7%
Comm./brokerage	10.7%	8.7%
Taxes, licenses & fees	1.0%	2.4%

\*Source: NAIC State Data Network, 2002 Illinois State Page Exhibit, Aggregate Totals of 293 Priv. Pass. Auto Insurers

\*\* Source: NAIC State Data Network, 2002 Insurance Expense Exhibit Part III, Aggregate Totals of 519 Priv. Pass. Auto Insurers

Losses in the private passenger automobile insurance line of business have remained fairly consistent over the last 6 years and have been comparable to nationwide losses, as Figure 11 below illustrates.

**Figure 11**  
**Private Passenger Auto Losses as a % of Premiums Earned**  
**(1997-2002)**



The top ten writers of private passenger auto insurance in Illinois are shown in Figures 12 and 13 for the years 2002 and 2001 respectively.

**Figure 12**  
**Top 10 Private Passenger Auto Insurers in Illinois - 2002**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Mut Auto Ins Co	\$1,594,102	\$1,558,703	29.8%	75.4%	2.9%	7.2%	0.5%
Allstate Ins Co	\$419,791	\$421,484	7.9%	59.3%	3.2%	10.3%	1.1%
Country Mut Ins Co	\$308,369	\$302,752	5.8%	64.6%	1.6%	9.5%	0.7%
Illinois Farmers Ins Co	\$254,119	\$255,142	4.8%	49.3%	2.8%	12.8%	0.9%
American Family Mut Ins Co	\$236,161	\$229,474	4.4%	64.3%	3.8%	8.3%	0.0%
Allstate Prop & Cas Ins Co	\$132,594	\$118,959	2.5%	73.5%	3.9%	11.0%	1.3%
State Farm Fire And Cas Co	\$130,800	\$125,747	2.4%	94.4%	3.2%	9.8%	0.5%
Safeco Ins Co Of IL	\$79,440	\$78,926	1.5%	68.5%	2.1%	12.0%	0.7%
Economy Premier Assur Co	\$70,783	\$57,833	1.3%	60.7%	1.8%	18.1%	0.7%
Affirmative Ins Co	\$67,141	\$42,431	1.3%	111.7%	0.0%	41.3%	0.9%

**Figure 13**  
**Top 10 Private Passenger Auto Insurers in Illinois - 2001**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
State Farm Mut Auto	\$1,461,246	\$1,433,983	30.0%	79.4%	3.2%	7.3%	0.8%
Allstate Ins Co	\$427,439	\$432,324	8.8%	53.0%	3.5%	9.9%	1.2%
Country Mutual	\$294,488	\$293,588	6.1%	61.1%	1.3%	10.0%	1.0%
Illinois Farmers Ins Co	\$257,335	\$254,481	5.3%	62.9%	1.0%	13.7%	0.7%
American Family Mut	\$213,897	\$211,944	4.4%	67.4%	3.9%	9.1%	1.3%
State Farm Fire & Cas	\$97,912	\$84,822	2.0%	100.8%	3.0%	11.4%	0.8%
Allstate P&C Ins Co	\$77,135	\$63,563	1.6%	70.3%	3.3%	14.2%	0.9%
Safeco Ins Co of IL	\$63,329	\$51,538	1.3%	66.1%	2.0%	13.5%	0.8%
Geico General Ins Co	\$59,845	\$60,601	1.2%	64.5%	1.7%	0.2%	0.2%
Mid-Century Ins Co	\$56,813	\$57,034	1.2%	57.9%	1.0%	9.1%	2.4%

### *Workers Compensation*

In order to slow the growth in workers' compensation claims costs during the last part of the 1980's, many states passed new laws that made it easier to manage medical costs and oversee the treatment plan and the return-to-work process. Larger deductibles, which made employers more concerned about safety, along with better fraud prevention also helped hold claim costs down.

However, from 1997 to 2000 workers compensation losses rose dramatically, before retreating in 2001 and 2002. Liberty Mutual conducted a study that found that rising claim costs were being driven by a widening definition of workplace injuries, more expensive medical treatments and a growing number of visits to medical practitioners.<sup>4</sup> But while claim costs have risen, the number or frequency of claims has been declining, 38% since 1990. While the workers compensation line of business is a "long-tail" line, meaning that reserves for claim payments can be invested before they are due to be paid, return on investments has been declining steadily. Fifteen of the 39 insurers that failed in 2002 wrote workers compensation coverage.

<sup>4</sup> Insurance Information Institute, May 2003

**Figure 14**  
**Workers Comp Underwriting Results 2002**

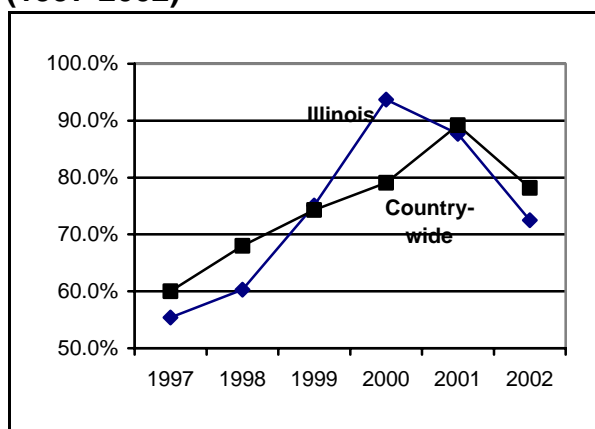
Workers Comp (\$000 omitted)	Illinois*	Countrywide**
Direct written premiums	\$2,118,309	\$29,216,289
Direct earned premiums	\$2,000,828	\$27,507,460
Expenses (% earned prem.)		
Incurred losses	72.5%	78.2%
Def. & cost cont. exp. incurred	4.9%	6.3%
Comm./brokerage	8.1%	7.9%
Taxes, licenses & fees	2.1%	4.3%

\*Source: NAIC State Data Network, 2002 Illinois State Page Exhibit, Aggregate Totals of 307 Workers Comp Insurers

\*\* Source: NAIC State Data Network, 2002 Insurance Expense Exhibit Part III, Aggregate Totals of 424 Workers Comp Insurers

Workers compensation losses as a percent of earned premium are shown in Figure 15 for the years 1997 through 2002. As mentioned previously, losses increased sharply from 1997 to 2000, both in Illinois and nationwide. Since peaking in 2000, workers comp losses have declined to under the 80% level.

**Figure 15**  
**Workers Comp Losses as a % of Premiums Earned (1997-2002)**



Figures 16 and 17 show the top workers comp insurers in Illinois for 2001 and 2002.

**Figure 16**

**Top 10 Workers Comp Insurers in Illinois - 2002**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
Combined Specialty Ins Co	\$168,296	\$147,982	7.9%	73.3%	3.9%	20.5%	0.6%
Zurich American Ins Co	102,131	97,918	4.8%	61.4%	6.0%	7.5%	2.0%
Commerce & Industry Ins Co	90,589	78,997	4.3%	71.1%	5.8%	7.2%	2.8%
Travelers Ind Co	84,055	61,955	4.0%	76.0%	8.0%	3.2%	3.5%
LM Ins Corp	83,819	47,208	3.9%	99.6%	9.0%	2.2%	5.0%
Liberty Mut Fire Ins Co	67,236	101,407	3.2%	49.0%	2.2%	0.2%	2.3%
St Paul Fire & Marine Ins Co	53,415	50,570	2.5%	77.2%	4.3%	8.4%	2.7%
West Bend Mut Ins Co	43,815	37,271	2.1%	76.3%	2.0%	7.6%	1.3%
Cincinnati Cas Co	42,303	43,999	2.0%	72.8%	4.4%	6.1%	2.9%
Country Mut Ins Co	35,633	32,502	1.7%	67.3%	5.2%	8.4%	0.7%

**Figure 17**

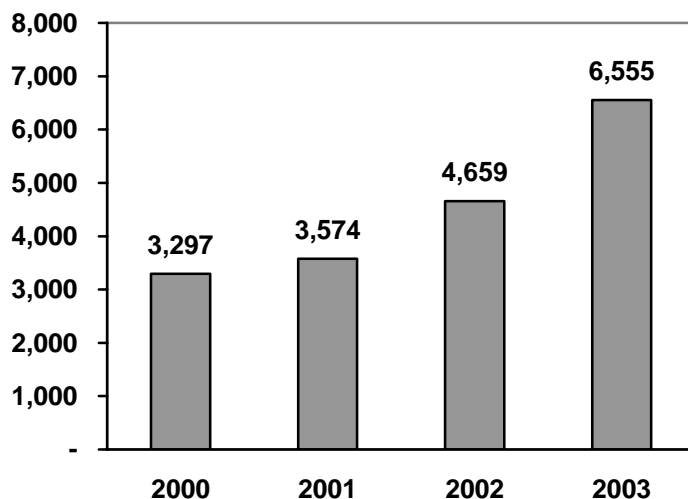
**Top 10 Workers Compensation Insurers in Illinois - 2001**

Company	Direct Written Premium (000's omitted)	Direct Earned Premium (000's omitted)	Illinois Market Share	Losses Incurred	Direct Defense & Cost Cont. Expenses Incurred	Comm & Brokerage Expenses	Taxes, Licenses & Fees
Combined Specialty Ins Co	\$117,053	\$100,186	6.3%	100.1%	8.4%	26.2%	1.0%
Zurich American Ins Co	\$66,248	\$55,645	3.5%	92.8%	-0.1%	9.5%	2.1%
Liberty Mut Ins Co	\$56,907	\$57,890	3.0%	84.5%	7.2%	2.5%	5.4%
Commerce & Industry Ins	\$56,628	\$29,754	3.0%	60.1%	7.5%	16.1%	0.6%
Travelers Ind Co of IL	\$52,300	\$54,398	2.8%	54.6%	8.1%	6.2%	3.4%
Liberty Mut Fire Ins Co	\$52,067	\$45,342	2.8%	115.1%	6.2%	0.4%	5.2%
Cincinnati Cas Co	\$47,586	\$36,004	2.5%	78.5%	5.6%	6.5%	1.7%
St Paul Fire & Marine Ins	\$44,222	\$32,366	2.4%	79.4%	5.6%	10.0%	2.3%
West Bend Mut Ins Co	\$31,443	\$27,569	1.7%	78.5%	4.0%	8.7%	1.3%
General Cas Co of IL	\$28,105	\$26,484	1.5%	89.1%	3.9%	11.4%	1.5%

There has been a marked increase in the size of the assigned risk pool in Illinois for workers compensation insurance in recent years, in terms of both the number of policies in force and premium volume. The data in the following charts, Figures 18-23, come from the National Council on Compensation Insurance, Inc., and illustrate the growth of the residual market.

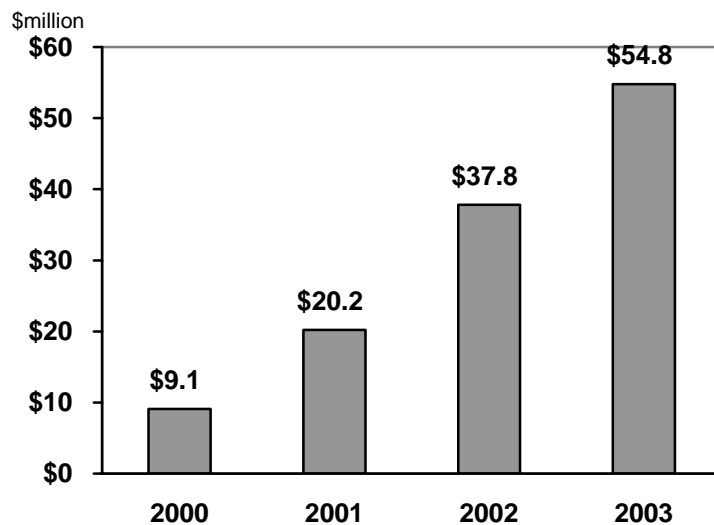
Figure 18 below shows the increase in the number of policies in force in Illinois for the residual market from 2000 through April 2003. Figure 19 shows the increase in premium volume since 2000.

**Figure 18**  
**Residual Market Total Policy Counts in Illinois**  
*as of April 21, 2003*



Source: National Council on Compensation Insurance, Inc.

**Residual Market Total Premium Volume in Illinois**  
*as of April 21, 2003*

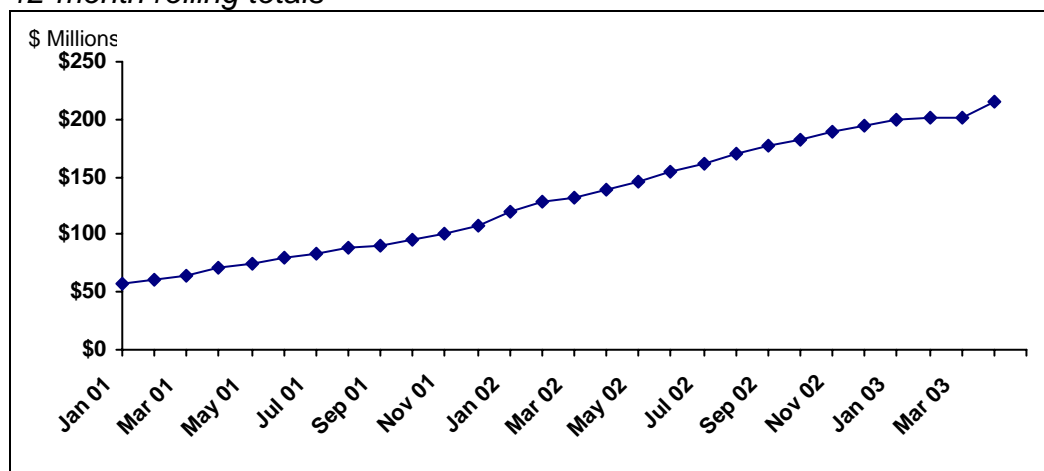


Source: National Council on Compensation Insurance, Inc.

Figure 20 shows the twelve-month totals in premium in Illinois for the residual market for all classes of workers comp coverage from January 2001 through April 2003. Figure 21 shows the twelve-month rolling totals for policies in Illinois for the same period.

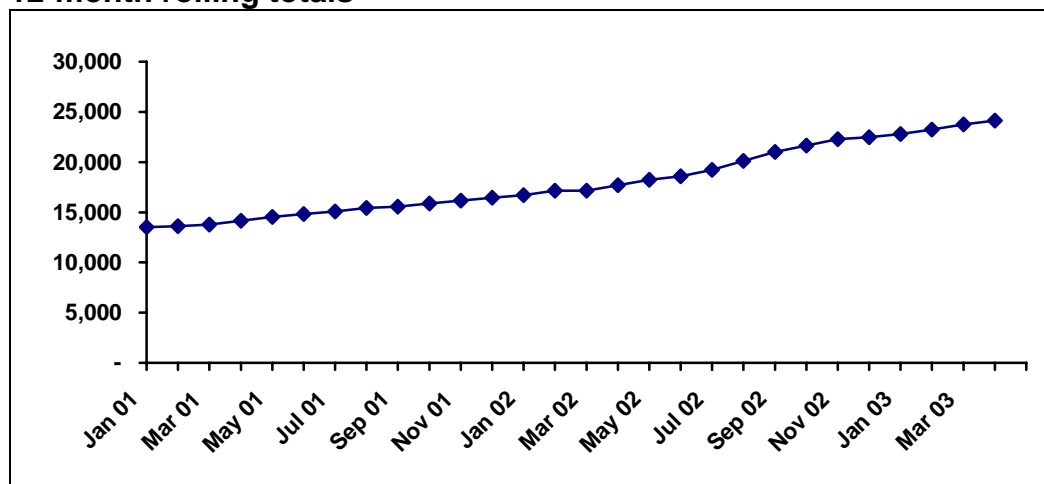


**Figure 20**  
**Illinois Plan Premium – Workers Comp (all classes)**  
*12-month rolling totals*



Source: National Council on Compensation Insurance, Inc.  
 Data are based on policies reported to NCCI by Servicing Carriers. They include assignments less than 120 days old that have not yet been reported as policies and a percentage of recently expired policies that are expected to be renewed. These totals are net of cancellations and include any additional premium due to policy endorsements.

**Figure 21**  
**Illinois Plan Policy Count – Workers Comp (all classes)**  
*12-month rolling totals*

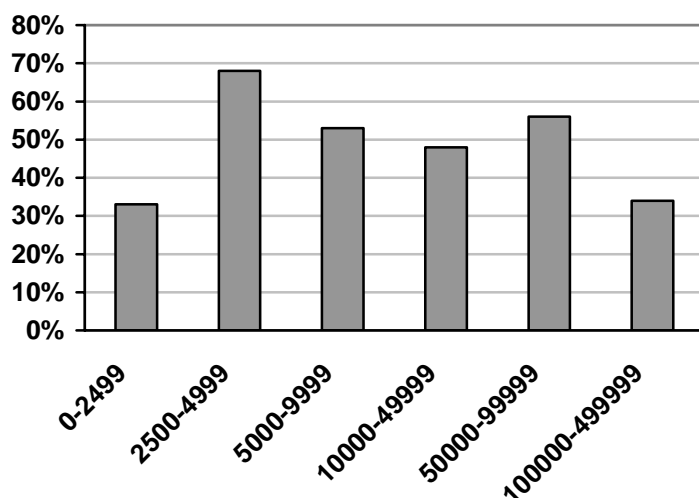


Source: National Council on Compensation Insurance Inc.  
 The above figures represent the number of policies in the Illinois residual market. Included are assignments less than 120 old that have not yet been reported as policies and a percentage of recently expired policies that are expected to be renewed.

Figure 22 shows the increase in policy counts from 2000 through April 2003 for different premium intervals. The chart illustrates how larger employers have been moving into the assigned risk pool in recent years, as opposed to mostly small employers in earlier years, which is beginning to affect the voluntary market.

**Figure 22**

**Percent Change in Policy Count for the Residual Market in Illinois  
2002 to April 2003, Distribution by Size of Risk (premium interval)**

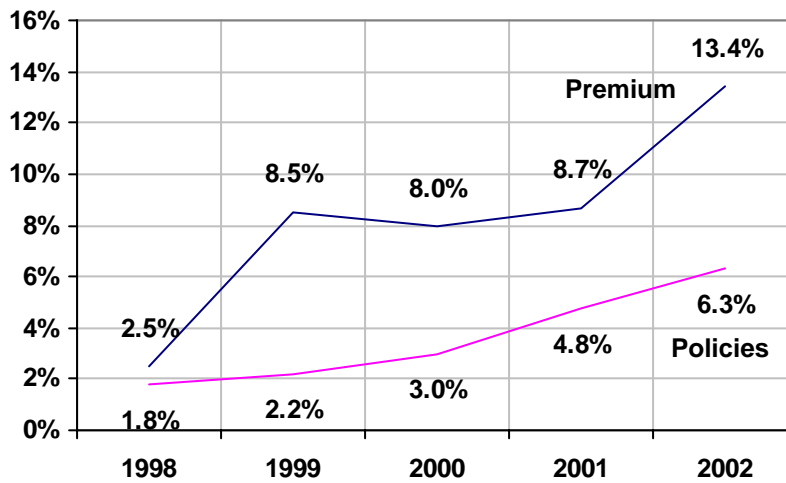


Source: National Council on Compensation Insurance, Inc.

Policy Count for the \$500,000-plus premium interval increased from 1 in 2002 to 4 by April 2003

Since 1998, the assigned risk pool, as a percent of the voluntary market, for workers compensation insurance has grown steadily. As Figure 23 on the following page shows, total premium in the residual market was just 2.5% of the voluntary market in Illinois. As of the end of 2002, residual market premium had increased to 13.4%. The number of policies in force in the assigned risk pool grew from 1.8% to 6.3% from 1998 to 2002.

**Figure 23**  
**Increase in Assigned Risk Market Share**  
*Percent of the Total Workers Comp Market in Illinois*



Source: National Council on Compensation Insurance, Inc.

## **Conclusion**

The severe problems over the medical malpractice situation both nationwide and in Illinois will need to be addressed soon, or there will be negative impacts on the quality of healthcare. While part of the problem for medical liability insurers has been the decline in income from investments, many in the insurance and health-care industries believe the main force driving rates higher and companies to leave the market is the large jury awards for pain and suffering resulting from malpractice cases, as well as the escalating cost of defending those claims, whether they have merit or not.

Upward pressure on rates for coverage in the personal lines continues. The severe tornado season this spring will undoubtedly have some affect on prices. However, losses as a percent of earned premium in both the homeowners and automobile markets in Illinois and nationwide have declined during the past two years.

Losses in the workers compensation line of business have been falling as well after increasing sharply from 1997 to 2000. This should have a positive effect on workers comp rates in the near future as companies get a handle on their costs. However, in Illinois in recent years, more and more large employers have been obtaining workers comp coverage in the residual market. The residual market, or assigned risk pool, has traditionally been where smaller sized employers purchased their workers comp coverage.

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